SPEECH

OF

HON. G. W. SCOFIELD,

OF PENNSYLVANIA,

ON THE

BILL TO PROVIDE FOR THE GRADUAL RESUMPTION OF SPECIE PAYMENTS.

Delivered in the House of Representatives January 27, 1869.

The House having under consideration the motion to reconsider the vote by which the bill to provide for the gradual resumption of specie payments was recommitted to the Committee on Banking and Currency—

Mr. SCOFIELD said:

Mr. SPEAKER: What shall we have for money in this country? I do not mean just now, while we are in a pinch, but in the future, when we become masters of the financial situation. Shall it be exclusively metallic? I suppose not. There were at one time a few advocates of hard money in the country, but I know of none now. If not metallic, it must be paper. Then what kind of paper? Shall we revive State banking? I hope not. Its complexity, panics, failures, frauds, and counterfeits condemn it, and the Constitution, properly construed, forbids it. We are left, then, to a choice between United States notes, something like our greenbacks, and bank notes something like our national currency. Before we choose between them, each system should be amended, or considered as amended, so as to be what we would want it to be in case of its exclusive adoption.

First. Banking should be free to all. Each bank should undertake to redeem its notes in coin upon demand, and give security for the undertaking. This would probably be a sufficient limitation as to the amount of currency.

Second. A plan should be contrived, by which the Government would save as much, or nearly as much, less the expense, as if the notes were issued by the Treasury, instead of the banks. It is said this is the case now. Perhaps it is; but it should be put in the form of reduced interest upon the bonds instead of taxes, so that we can all see exactly what is

saved. Otherwise the wants of trade may be overlooked in the straits of the Treasury. With these, and perhaps other modifications of the national banking system, let us see which of the two kinds of paper is most desirable. The Treasury could have no choice, because the Government would save or make as much on the one kind of paper as the other. The bill-holder could have no choice, because his security in each case would be exactly the same, except that in the one case the responsibility of the corporation would be added to that of the Government—an addition, perhaps, too trifling for consideration. Which, then, is best for trade? Trade needs stability in prices. To make prices stable, the amount of currency and the amount of trade should always bear the same relation to each other. If the amount of trade varies during the year, or from year to year, the amount of currency should vary also. Otherwise prices would go up and down from mere excess or lack of currency. This want of trade has never been perfectly met by any system. It probably never will be. But the currency furnished by a free-banking system will supply it more nearly than any other. It is capable of expanding as trade expands, and contracting as trade contracts. Not so with a Treasury currency; that must expand and contract as laws are made or repealed by Congress. Congress cannot always guess what trade wants, nor be willing to respond to those wants if it could. The necessities of the Treasury, the preparation for an election, or a change of the administration would generally dictate the increase or decrease of currency. Legislation thus controlled by political reasons must necessarily be arbitrary and unseasonable. No business man would feel safe while Congress was in session. A line or two of law might wipe out half his securities or double his liabilities. Free banking, on the other hand, is self-regulating, or rather it is regulated by the demands of business. Its notes will be plenty when trade is brisk, and scarce when trade is dull, and thus prices will be kept stable.

It has been supposed that this flexibility could be imparted to the Treasury currency by allowing the notes to be converted into bonds and the bonds into notes, at the pleasure of the holder. The effect of this scheme would be very different, I apprehend, from its purpose. The notes and bonds, being convertible into each other, would always be of exactly the same value. Except in the convenience of handling, one would be as good a medium of exchange as the other. The result would be, that nearly all the notes would be converted into bonds for the sake of the interest, and the bonds used in all large transactions in place of the

notes. Substantially, the bonds would all become currency. It would make a great inflation of currency, and the Government would be paying interest on nearly the whole of it.

The gentleman from Massachusetts [Mr. Butler] has given us the details of a plan based upon this principle. It provides that the holder of any portion of the bonds bearing six per cent. interest in coin may exchange the same for currency at the rate of ninety per cent. of its par value, and while the bonds are so deposited and exchanged, receive yearly interest thereon at the rate of two and thirty-five hundredths per cent. A man having $1,000 could purchase with it a bond of the same amount, and at once deposit it and get back $900 of his money. He would thus be out of pocket only $100, but he would annually draw from the Treasury, as interest on his bond, at the rate of two and thirty-five hundredths per cent., $23 50.

The gentleman says there are $1,750,000,000 of these convertible bonds. This large interest would cause them all to be converted, and we would thus have $1,575,000,000 of currency, beside the $350,000,000 which the gentleman proposes to issue in advance in the place of greenbacks. If the whole $1,750,000,000 were deposited, and ninety per cent. of their par value returned in currency, the bondholders would be out of pocket $175,000,000, and would receive from the Government as interest $41,125,000. The interest upon their money actually invested would be twenty-three and fifty-hundredths per cent. The bondholders would make a good deal of money by the operation, and the Government would save some interest, but the country would be afflicted with $1,925,000,000 of irredeemable paper. If you thus make it an object to convert the bonds, all will be converted, and we will have a destructive flood of paper. If holding the bonds pays best, the notes will be converted and the bonds used as currency. The inflation will be nearly as disastrous as in the other case, while the Government must carry a heavier load of interest than ever before.

To avoid this objection, it has been proposed to make only a limited amount of bonds and notes convertible. Within this limit the effect would be the same, with this additional disadvantage: all who desired to reduce the amount of currency, either for speculation or to approximate specie payments, would convert the notes and hold the bonds. They could afford to do this, because they would receive a fair interest upon the money, while they were at the same time securing what they would consider a more important end, to wit, a contraction of currency and fall of prices.

When, then, we shall settle down to a specie-paying paper

currency, I am inclined to give the preference to a system of national banking, free to all, and paying into the Treasury as much money as the Government could save by issuing its own notes. No other system could make the bill-holder more secure, earn more for the Treasury, nor so well supply the wants of trade.

This system cannot be adopted until after we resume specie payments; and this leads me to inquire how and when resumption shall begin. To answer this question, I will ask another: How much paper will our share of the world's gold and silver keep afloat? Before the war, under the old system of State banking, we were able to carry about $200,000,000. We can carry much more now, both because the world has more specie now than it had then, and because we would require less specie, owing to our improved system of banking and securities, to float the same amount of paper. It is hard to say how much paper we could keep out, but I will suppose $500,000,000. This is a rough guess, designed as an illustration rather than as a statement of fact. On this supposition, the $700,000,000 of paper now out would diminish after resumption to $500,000,000, or to such other sum as would be shown by experience to be our maximum. Specie payments, then, involves a contraction of the currency.

Whether this contraction should take place in advance, in preparation for, or follow as the effect of resumption, I do not care just here to consider. I am only asserting that we will have considerably less paper when we have specie payments than we have now. The effect of this contraction must be a fall in prices. Whenever we are prepared to submit to this, and take the consequences, we can find ways enough to bring it about. Many plans have been proposed, all feasible, though perhaps not all equally good. One is to resume at once, in the belief that gold will come into the Treasury as fast as it will be drawn out. The New York *Tribune* advocates this way. Possibly this plan would succeed. Possibly the Treasury would receive as much gold as it would be required to pay out; but if we did continue to pay specie, I am quite sure we would soon reduce the amount of currency, prices would fall, and the debtor class suffer.

Another plan is to fix a time of resumption, and save up enough gold to make it certain that we will be able to meet all demands. This, I think, is Senator Morton's plan. This would be pretty sure to enable us to continue specie payments once begun; but it would not, as is supposed, enable us to float our present amount of paper. If we thus secured more gold than would ordinarily stay in this country, it would flow back to its accustomed pools as soon as it was put upon tap,

and we would soon be left with as much paper currency as our proper share of the world's gold would float, and no more. Low prices would follow as before. Another plan is to reduce the paper currency to an amount which we might suppose could be kept afloat, and then resume. This is Secretary McCulloch's plan. The plan is good enough, but the effect would be precisely the same, a contracted currency and low prices. Another plan is to buy in or redeem the currency, beginning at about its present value in gold, and rising monthly in price, until we shall finally redeem it at its face. In the meanwhile we would pay out the notes as at present. This plan was introduced by the gentleman from Ohio, [Mr. GARFIELD,] and is as good as any. It avoids the danger of compulsory suspension involved in the *Tribune's* plan, the expense of hoarding involved in Senator MORTON's plan, and the uncertainty as to the amount to be retired involved in the Secretary's plan. It is as gradual as any, and has this advantage over them all, that it foretells to the people exactly how fast prices will fall.

But while this plan is as unobjectional as any, it does not avoid the great fault (if fault it should be called) of them all, to wit, an ultimate contraction of the currency. It is because all these plans involve this result that all are rejected. We are seeking for a plan that will keep afloat our $700,000,000 of paper, and still redeem it in gold upon demand. We will seek in vain. It is not in the power of legislation. All the plans proposed, and all that can be proposed, are only different roads to the same goal. Some may be shorter than others; some more agreeable than others; but travel which we will, we come to contraction and low prices at last. If low prices is the effect of resumption, when can we encounter them with the least injury? Most certainly when the people are least in debt. If nobody was in debt, nobody would be hurt by the change. To prepare for resumption, then, the people should endeavor to pay their debts while prices are still high. If Congress should take no steps toward resumption, the Supreme Court may. The argument over the constitutionality of "legal tenders" has ceased, and the court is deliberating. Nobody, I presume, not even the court itself, knows what the decision will be. The uncertainty of a jury verdict has passed into a proverb, but I would as leave bet on the jury as the judge. Who can guess to what conclusion a mind educated in belligerent logic and professional subtlety, tempted at least—perhaps swayed—by personal ambition, may come? It is quite probable, however, the court may search out some theory by which to sustain the action of Congress, prompted by the terrible

necessities of the war; but it is not so certain that it will attempt to clothe Congress in all future time with plenary power over all contracts, past, present, and future, and regardless of their terms and stipulations, to satisfy them with anything valuable or invaluable, paper, wood, leather, or anything else, that this body in its ingenuity can invent and call money. While this uncertainty hangs over the question, it behooves the people everywhere to take advantage of the high prices and liquidate their debts. Out of debt, out of danger.

You see, Mr. Speaker, I am neither advocating nor opposing these multitudinous plans of resumption. My object in rising at this time was to prove to the House that there can be no permanent resumption without contraction, and that all feasible plans of resumption lead directly or indirectly to that result.

I think we had better not act upon any plan this short session. Standing still is a step toward resumption— a very short step, I will admit; but still it is something. Every year adds to the world's stock of gold and silver. Every year, by the increase of our population, makes our share of it larger. We can, therefore, float more paper on a specie basis next year than this. This furnishes a small excuse for waiting, but I have a better one—my constituents desire it.